



**FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2020**

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Dihlabeng Local Municipality

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GENERAL INFORMATION

Members of the Executive Mayoral Committee:

Councillor L U Makhalema
Councillor M A Mokoena
Councillor M St V Mofokeng
Councillor D B Michaels
Councillor S M Jacobs

Councillor T J Tseki
Councillor Ms M E Sempe

Councillor N E Mabizela

Chairperson
MMC for community services
MMC for public works and rural development
MMC for corporate services
MMC for human settlement & local economic
development and tourism
MMC for finance
MMC for IDP, performance management
and monitoring
MMC for women, children, disability and
vulnerable groups

Grade of Local Authority:

Grade 8

Auditor:

Auditor-General South Africa

Bankers:

ABSA Bank
Branch 502-233 Account number 4052898966

Registered Office:

Civic centre PO Box 551
Muller street Bethlehem
Bethlehem 9700

Telephone: 058-303 5732
Fax: 058-303 5076

E-mail address:

info@dihlabeng.co.za

Dihlabeng Local Municipality

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Municipal Manager:

Mr Busa Molatseli

Chief Financial Officer:

Mr Pule Khiba

Members of the Dihlabeng Local Municipality

<u>Ward No:</u>	<u>Councillor</u>
1	Mr T I Mofokeng
2	Mr M M Twala
3	Mr D B Michaels
4	Mr M D Motaung
5	Mr T J Mbambo
6	Ms J Twala
7	Ms T M Mofokeng
8	Mr T M H Mofokeng
9	Mr B F Mokoena
10	Ms C J van Niekerk
11	Mr M D Shabalala
12	Mr J M Radebe
13	Mr T J Seekane
14	Mr T J Tseki
15	Ms M E Sempe
16	Mrs S M Jacobs
17	Mrs A L Rakhothule - Mkhwanazi
18	Mrs N E Mabizela
19	Mr M St V Mofokeng
20	Mr P D Lengoabala

Public Representatives Councillors

Mrs L U Makhalema	Mr J K Rathebe
Ms M A Maleka	Mrs M A Mokoena
Ms M E Lekhoa	Mrs H E Mokoena
Ms M F Mabuya	Mr E T Motloung
Mr G J Roetz	Ms N A Motaung
Mr P A Maasdorp	Mr J J Nhlapo
Mr M J Mokoena	Mr M K Mthombeni
Mr D L Xaba	Ms M V Oliphant

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Ms M A Motaung

Mr A Wolmarans

Ms Z Nzimande

Executive Mayor:

Councillor L.U. Makhalema

Speaker:

Councillor P.D. Lengoabala

Members of the Audit Committee:

Ms V C Sikaundi	-	Chairperson
Mr. MD Motaung	-	Member

Nature of the entity

The municipality is established in terms of Chapter 7 of the Constitution of the Republic of South Africa.

Relevant legislation

Constitution of the Republic of South Africa

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act (Act No 5 of 2012)

The Income Tax Act (Act No 28 of 1997)

Value Added Tax Act (Act No 89 of 1991)

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

Basic Conditions of Employment Act (Act no 75 of 1997)

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Disaster Management Act (Act no 57 of 2002)

Municipal Electoral Act (Act no 27 of 2000)

Municipal Demarcation Act (Act no 27 of 1998)

Supply Chain Management Regulations, 2005

Collective Agreements


Infrastructure Grants

SALBC Leave Regulations

APPROVAL OF FINANCIAL STATEMENTS:

I am responsible for the preparation of these annual financial statements, which are set out on pages 18 to 98 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 29 and 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Acting Municipal Manager
Lekgetho Mokgatlhe



Chief Financial Officer
Pule Khiba

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

ACCOUNTING OFFICER'S REPORT

1. INTRODUCTION

The 2019/20 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources.

The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2019/20 budget:

- The eradication of backlogs and investment in infrastructure for basic services and growth
- Economic growth and development that is shared and creates sustainable jobs
- Building safer, more secure and more sustainable communities
- The deepening of democracy
- Financial viability and management of resources
- A caring and effective government
- Institutional capacity and transformation

To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2019/20 financial year.

The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure that we stretch our resources to the maximum.

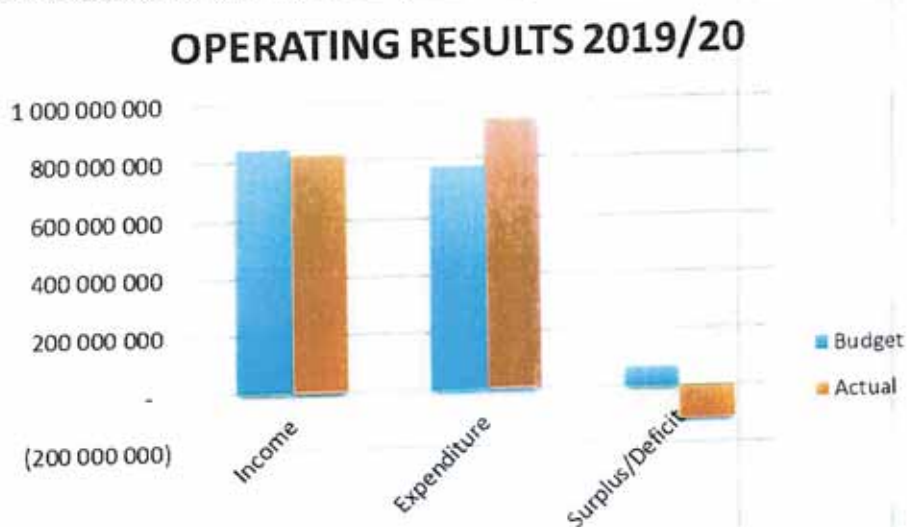
2. REVIEW OF OPERATING RESULTS

The 2019/20 budget of Dihlabeng Local Municipality was approved by Council in May 2019.

2.1 General

Details of the 2019/20 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:

The overall operating results for the year ending 30 June 2020 are as follows:



Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

	Original Budget 2019/20	Adjusted 2019/20	Actual 2019/20	Variance Actual / Adjusted budget	Actual 2018/19
Description	R'000	R'000	R'000	%	R'000
REVENUE					
Operating revenue for the year	838 648	838 648	818 823	4,27%	785 337
	838 648	838 648	818 823		785 337
EXPENDITURE					
Operating expenditure for the year	770 722	770 722	931 502	-8,32%	1 016 018
Fair value adjustment	-	-	(7)		116
loss/ Gain on disposal of assets	-	-	(2 933)		1 846
Actuarial Gains / (loss)	-	-	2 472		(765)
Gain on biological assets	-	-	502		917
	770 722	770 722	934 528		1 014 938

The actual net expenditure of the Municipality reflects a decrease of 8.32% while the actual revenue of the Municipality has increased by 4.27% in 2019/20

The largest increase on revenue occurred on Interest received on investment (370%), licenses and permits (35%) and Government Grants (13%).

The largest increase on expenditure occurred on personnel costs (10%), finance costs (133%), debt impairment (35%) Bulk Purchases (25%), repairs and maintenance (25%).

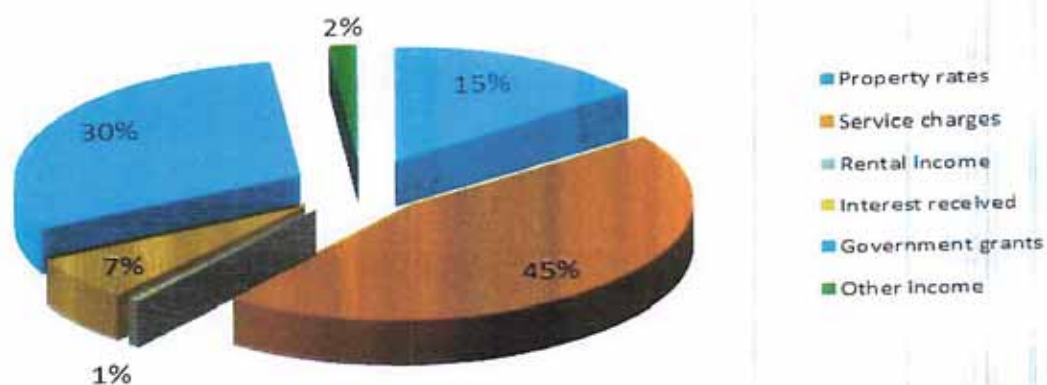
Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

2.2 Operating Revenue

The following graph indicates a breakdown of the largest categories of revenue.

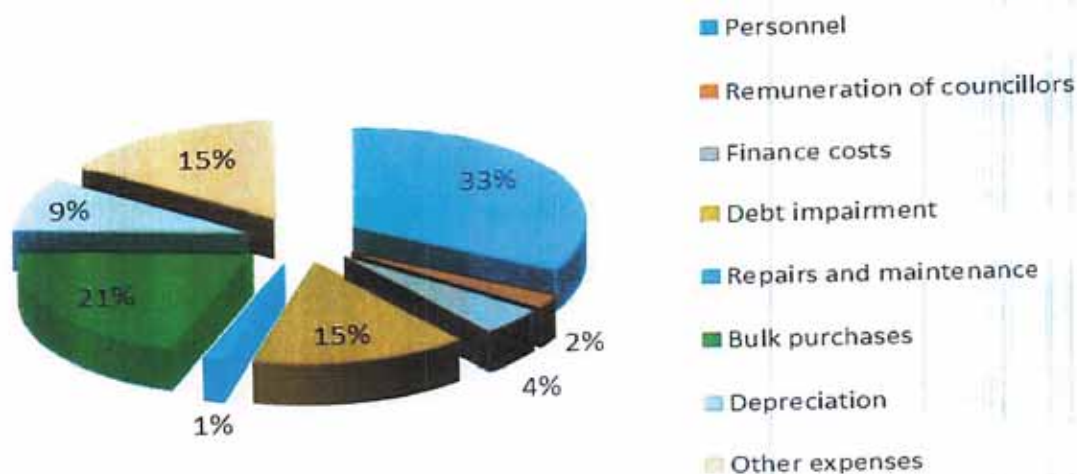
OPERATING REVENUE 2019/20



2.3 Operating expenditure

The graph below indicates the break down per main expenditure group.

OPERATING EXPENDITURE 2019/2020



Dihlabeng Local Municipality

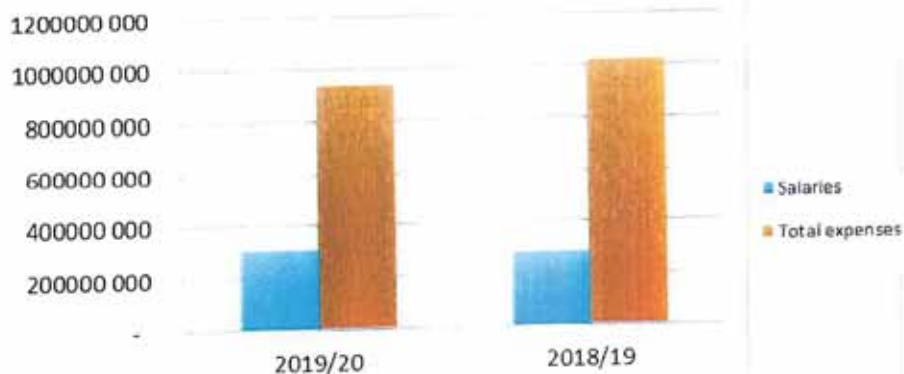
Annual Financial Statements for the year ended 30 June 2020

Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows an increase from 27.34.13% in 2018/19 to 32.71% in 2019/20. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

Description	2019/20 R'000	2018/19 R'000
Total operating expenditure	934 527	1 014 937
Total operating revenue	818 823	785 337
Employee remuneration	304 712	277 797
Ratio: % of total expenditure	32,71%	27,34%
Ratio: % of total revenue	37,35%	35,50%
% in/decrease in remuneration	9,69%	15,43%

PERSONNEL COSTS vs OPERATING EXPENDITURE



Dihlabeng Local Municipality

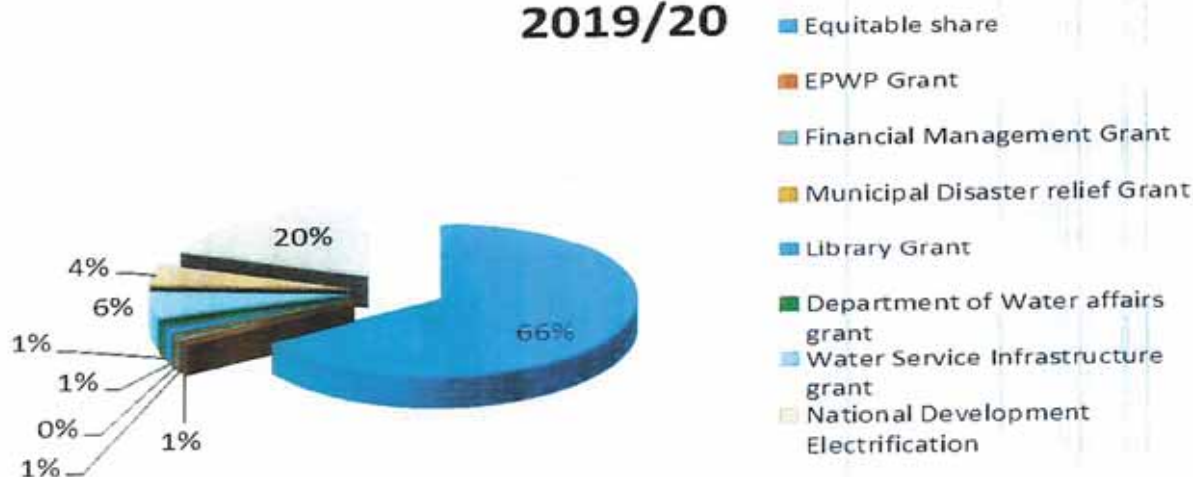
Annual Financial Statements for the year ended 30 June 2020

Government grants and subsidies

The following table and graph show the amounts received in terms of grants, contributions and subsidies from the Central Government and the Free State Provincial Government, which have been included in the total revenue:

Description	2019/20	2018/19
Equitable share	164 487 000	147 861 000
EPWP Grant	1 375 000	1 000 000
Financial Management Grant	2 235 000	1 770 000
Municipal Disaster relief Grant	864 000	
Library Grant	3 000 000	2 750 000
Department of Water affairs grant	2 802 010	2 443 765
Water Service Infrastructure grant	14 323 000	16 550 000
National Development Electrification	11 013 000	10 000 000
MIG	48 648 000	37 914 000
	248 747 010	220 288 765

GOVERNMENT GRANTS & SUBSIDIES 2019/20



Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

2.4 Operating statement analysis

The following differences occurred with regards to the operating results for the 2019/20 financial year. Please refer to pages 22 of the financial statements.

Descriptions	Final Adjustmen t budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorized expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Property rates	153 342	-	153 342	126 025	-	27 317	82%	Over budgeting Due to decrease in utilization of water and electricity/Over budget Due to non-payment of debts by consumers Due to more revenue received than anticipated.
Services charges	404 774	-	404 774	369 464	-	35 310	91%	
Interest received	33 648	-	33 648	53 270	-	19 622	158%	
Transfers recognised - operational	233 105	-	233 105	233 105	-	-	100%	
Other own revenue	13 779	9 000	22 879	33 986	-	11 107	247%	
TOTAL REVENUE (Excluding capital transfers and contributions)	838 648	9 000	847 748	815 850	-	31 898	97%	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Descriptions	Final Adjustment budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorized expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Employees cost	266 404	-	266 404	304 712	38 308	-38 308	114%	Due to annual increases
Remuneration of councilors	16 829	-	16 829	17 531	702	-702	104%	within 10%
Debt impairment	101 112	34 000	135 112	136 675	1 563	-1 563	135%	Due to non-payment of debts by consumers
Depreciation and asset impairment	78 991	-	78 991	78 037	-954	954	99%	within 10%
Finance charges	9 200	-	9 200	39 899	30 699	-30 699	434%	Interest paid to Eskom and other creditors due to none payment within 30 days
Materials and bulk purchases	165 000	-	165 000	188 543	23 543	-23 543	114%	Due to annual tariffs increases
Other expenditure	120 039	-34 000	86 039	149 102	63 063	(63 063)	124%	Due to high provision for debt impairment
TOTAL EXPENDITURE	770 722	-	770 722	931 502	160 780	-160 780	121%	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

2.5 Financial Position statement analysis

The following difference occurred with regards to the operating results for the 2019/20 financial year. Please refer to pages 18 to 23 of the financial statements.

	Approved budget	Adjustments	Final budget	Actual amounts	Variances	Actual outcome as % of final budget	Reasons for variances
CURRENT ASSETS							
Other financial assets	1 208 000,00	-	1 117 000	1 194 539	(77 539)	107%	within 10%
Inventories	554 000,00	-	426 000	1 138 065	(712 065)	267%	more stock items needed
Receivables from exchange transactions	1 187 000,00	-	-	10 557 249	(10 557 249)		
Other receivables from non-exchange transactions	-	-	-	3 263 211	(3 263 211)		
VAT Receivable	-	-	-	11 867 428	(11 867 428)		
Consumer debtors	146 661 000,00	-	114 524 000	116 235 825	(1 711 825)	101%	within 10%
Trade receivables from exchange	-	-	-	26 045 037	(26 045 037)		
Cash and cash equivalents	-	-	-	2 889 113	113 177 887		
NON CURRENT ASSETS	149 610 000,00		116 067 000	173 190 467	58 943 533		
Investment property	-	-	97 027 000	660 157 824	(563 130 824)	680%	Re-classification of assets in the assets register
Property, plant and equipment	3 034 334 000,00	-	3 034 334 000	1 693 134 776	1 341 199 224	56%	Over budgeting
Biological assets	68 507 000,00	-	4 638 000	4 148 275	489 725	89%	Decrease in market value
Heritage assets	-	-	-	46 260 000	(46 260 000)		
Intangible assets	-	-	81 000	1 152 177	(1 071 177)	1422%	Upgrade in IT infrastructure
Other financial assets	-	-	1 094 000	584 027	509 973	53%	Over budgeting
CURRENT LIABILITIES							
Other financial liabilities	3 483 000,00	-	3 673 000	4 627 040	(954 040)	126%	Under budgeting
Finance Lease obligation	-	-	-	307 523	(307 523)		
Payables from exchange	258 467 000,00	-	285 564 000	481 897 288	(196 333 288)	169%	VAT was also included in the budget figures
Consumer deposits	4 300 000,00	-	5 875 000	8 733 153	(2 858 153)	149%	Improved data cleansing and collections

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

NON CURRENT LIABILITIES							
Retirement benefit obligations	76 583 000,00	-	47 153 000	22 000 000	25 153 000	47%	Over provision/budget
Finance Lease obligation	-	-	-	1 102 193	(1 102 213)		
Long service awards	-	-	-	17 946 000	(17 946 000)		
Other financial liabilities	32 737 000,00	-	37 153 000	29 097 963	8 055 037	78%	DBSA loans restructuring
Provisions				6 972 342	(6 972 342)		

Dihlabeng Local Municipality

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3. DEBTORS

The following is an indication of the effectiveness of credit control measures, as well as the ability to convert debtors into cash:

Description	2019/20	2018/19
Consumer debtors	554 174 569	545 187 284
Balance on 1 July	705 447 589	696 834 058
Balance on 30 June	808 114 344	705 447 589
Average balance	756 780 816	701 140 673
Days in the financial year	365	365
Turnover: Number of days	498	469
Turnover: Number of times (levies/average balance)	0,73	0,78

From the table it is clear that, the number of days to recover increased from 469 to 498 since 2018/19. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. Measures have been put in place to recover the debts and the legal actions taken are starting to have an impact on the poor payment culture within our municipality. The increase in debtors has a serious impact on the going concern of the municipality.

4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2019/20 amounted to R76.7 million and was accepted by National Treasury.

Of these funds the MIG funding of R48.6 million was spent in the 2019/20 financial year and R17.1 million was spent from DWA funding and R11 million on Electrification.

Conclusion:

When comparing the actual expenditure to the budgeted expenditure the financing source of capital projects plays an important role. The funding from own sources can largely influence the following aspects:

- The raising of loans
- The cash flow of the Municipality

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

5. ACCOUNTING RATIOS

5.1 Current asset ratio

This ratio mainly involves the financial resources used in the operating cycle of a local authority. Operating capital represents the surplus of current assets over current liabilities. This is a useful indicator when determining the ability to fund operating expenditure. This ratio measures the extent to which the current liabilities are covered by the current assets. A larger coverage means a lower risk since short-term debt can be paid out of short-term assets. The following table shows the calculation of the operating capital ratio:

Description	2019/20	2018/19
CURRENT ASSETS:		
Cash	233 442	2 905 440
Inventory	105 371 025	105 343 559
Consumer Debtors	107 132 505	89 848 496
Receivables from exchange transactions	13 211 135	10 557 249
Receivables from non-exchange transactions	19 594 792	15 317 240
Other financial assets	1 263 361	1 194 539
Other receivables from exchange transactions	3 598 964	3 550 328
VAT Receivable	24 771 807	14 206 502
Total	275 177 031	242 923 353
CURRENT LIABILITIES:		
Creditors	647 384 193	497 345 068
Unspent conditional grants and receipts	-	-
Other financial liabilities	5 106 862	4 627 040
Taxes and transfers payable	-	-
Consumer deposits	9 718 544	8 733 153
Overdrawn cash book balance	2 071 772	-
Total	664 631 948	511 012 784
Net Operating Capital	(389 454 917)	(268 089 431)
Current asset Ratio	0,35 : 1	0,24 : 1

The ratio increased slightly since 2018/19. This is due to the fact that the current liabilities increased by 23% whilst the current assets increased with 13%. The impact in current assets can mainly be ascribed to the large provisions that had to be made towards debt impairment of R136 million, which equates to R11.3 million per month, more than our bulk electricity purchases per month. The municipality has prioritised this fact of its business to ensure the sustainability of the municipality.

The private sector sets a ratio of 2:1 as being acceptable, however a norm for local government is currently not available.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

5.2 Quick asset ratio (Acid test)

This ratio is a more accurate test of a local authority's ability to settle its short-term debt. When calculating this ratio, only assets that can be converted into cash are taken into account. Since material and stock are for the local authority's own use and are not for sale, they are not included in the calculations. The private sector sets a ratio of 1:1 as being acceptable. The figures that follow reflect the Municipality's quick asset ratio for the following years:

DESCRIPTION	2019/20	2018/19
Current assets	275 177 031	242 923 353
Less: Inventory	105 371 025	105 343 559
Total	169 806 006	137 579 794
Current liabilities	664 631 948	511 012 784
Quick asset ratio	0.34 : 1	0.23 : 1

The ratio decreased due to increase in the current liabilities, serious attention will be required to increase the ratio even further in this area to ensure the going concern of the municipality.

5.3 Solvability

In this ratio, the total assets are compared to the total liabilities, and it shows the ability of the Municipality to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. The following table shows the calculation of the solvency ratio:

DESCRIPTION	2019/20	2018/19
TOTAL ASSETS:		
Current assets	275 177 031	242 923 353
Non-current assets	2 317 921 877	2 318 890 782
Total	2 593 098 908	2 561 814 135
TOTAL LIABILITIES:		
Current liabilities	664 631 948	511 012 784
Plus: Long-term loans	24 352 731	29 097 963
Non-current provisions	6 629 611	6 972 342
Total	695 614 290	547 083 089
Solvability Ratio	4.82 : 1	6.04 : 1

The total assets of the Municipality increased by 1.22% in the current financial year while the total liabilities increased with 27% resulting in a decrease in the solvability ratio as stated above. Non-current assets decreased with 0.04% while external loans decreased with 16%.

Dihlabeng Local Municipality

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5.4 Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio decreased from 4.29% to 3.86% since 2018/19. This decrease can be ascribed to the fact that the total debt decreased with 7% and increase of 4% in total revenue.

DESCRIPTION	2019/20	2018/19
Total debt	31 531 365	33 725 003
Total revenue	818 823 533	785 337 706
Ratio	3,86%	4,29%

5.5 Cashbook balance plus short-term loans to total operating revenue

DESCRIPTION	2019/20	2018/19
Short term debt	7 178 634	4 627 040
Total revenue	818 823 533	785 337 706
Ratio	0,88%	0,59%

According to credit rating companies, the benchmark is a ratio of less than 5%. The ratio decreased due to an improvement in the cash book balance at the end of the financial year and the increase in the revenue.

5.6 Cash to interest coverage

This ratio indicates to what extent a local authority can generate sufficient cash from its normal activities to cover its external interest liabilities. If the ratio is less than 1:1, it may indicate future cash flow problems. The ratio for the past two financial years is as follows:

DESCRIPTION	2019/20	2018/19
Cash generated from operations (Nett cash flow)	77 563 453	63 186 549
Interest paid on external loans	39 898 649	17 093 456
Ratio	4,64 : 1	2,91 : 1

The ratio shows an increase as the interest paid on external loans increased with 133% and the cash generated from operations shows a 23% increase since 2018/19.

5.7 Net debtors to total annual operating revenue

DESCRIPTIONS	2019/20	2018/19
Annual operating revenue	818 823 533	785 337 706
Debtors (excluding provision for bad debt)	13 059 226	17 235 175
Percentage	1,60%	2,19%

This ratio had a decrease of 0.59%. This is a clear indication that the debt collection process of the municipality has problems and still needs to be improved even more.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

6. CHALLENGES EXPERIENCED DURING 2019/20

6.1 GOING CONCERN ISSUES

The going concern of the municipality remains an issue that management needs to address; the following areas are of concern:

- The government subsidies equate to 30% of our income. The situation decreased by 2% from the 2018/19 financial year (i.e 28%). This means that there was a lesser reliance by the municipality on government grants.
- With reference to 5.2 (Quick asset ratio), the ratio of 0.34 : 1 is still a poor given the norm of 1: 1. The recoverability of our debtors still remains a problem hence the large provision for doubtful debts.
- Our overdrawn cash book balance plus short term portion of long-term debt to operating revenue ratio (section 5.5 above) shows an increase from 0.59% (2018/19) to 0.88% (2019/20).
- Although the personnel costs are within the norm of 35%. The ratio is still too high due to the impairment of debt and the municipality should make all possible efforts to reduce it to at least 27.75% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)
- We draw attention to the fact that at 30 June 2020, the municipality had incurred a net loss of R115,704,360 (2019:R229,599,841) during the year and that the municipality's total liabilities exceed its current assets by R1, 857,978,494 (2019:R1,973,682,853). In addition, the municipality owed Eskom R404, 091,925 (2019: R263,047,090) and Bethlehem Hydro (Pty) Ltd R 0 (2019 R27,502,989) at 30 June 2020 which is long overdue. The municipality is not able to timeously recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30 day time period.
- These conditions, along with other matters as set out in the financial statements indicate the existence of a material uncertainty about the municipality's ability to operate as a going concern

6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2019/20. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

7. APPRECIATION

I am grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, office of the Municipal Manager, CFO, Directors, Managers and Staff members. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period.



LEKGETHO MOKGATLHE
ACTING MUNICIPAL MANAGER

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Inventories	2	105,371,025	105,343,559
Other financial assets	3	1,263,361	1,194,539
Receivables from exchange transactions	4	13,211,135	10,557,249
Receivables from non-exchange transactions	5	3,598,964	3,550,328
VAT receivable	6	24,771,807	14,206,502
Consumer debtors from exchange transactions	7	107,132,505	89,848,496
Consumer debtors from non-exchange transactions	7	19,594,792	15,317,240
Cash and cash equivalents	8	233,442	2,905,440
		275,177,031	242,923,353
Non-Current Assets			
Biological assets that form part of an agricultural activity	9	4,650,195	4,148,275
Investment property	10	573,611,528	573,611,529
Property, plant and equipment	11	1,691,849,929	1,693,134,774
Intangible assets	12	1,042,340	1,152,177
Heritage assets	13	46,260,000	46,260,000
Other financial assets	3	507,885	584,027
		2,317,921,877	2,318,890,782
Total Assets		2,593,098,908	2,561,814,135
Liabilities			
Current Liabilities			
Other financial liabilities	14	5,106,862	4,627,040
Finance lease obligation	15	350,577	307,523
Payables from exchange transactions	16	647,384,193	497,345,068
Consumer deposits	17	9,718,544	8,733,153
Bank overdraft	8	2,071,772	-
		664,631,948	511,012,784
Non-Current Liabilities			
Other financial liabilities	14	24,352,731	29,097,963
Finance lease obligation	15	746,124	1,102,193
Employee benefit obligation	19	20,460,000	22,000,000
Provisions	18	6,629,611	6,972,342
Long service leave award	20	18,300,000	17,946,000
		70,488,466	77,118,498
Total Liabilities		735,120,414	588,131,282
Net Assets		1,857,978,494	1,973,682,853
Accumulated surplus		1,857,978,494	1,973,682,853

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	22	369,464,341	357,686,363
Rendering of services		1,690,763	1,549,638
Rental of facilities and equipment	23	5,416,067	5,062,736
Interest charges on consumer accounts	24	53,269,618	52,420,956
Licences and permits		205,626	152,674
Recoveries		981,552	-
Other income	25	6,331,688	14,121,375
Interest received - investment	26	240,927	51,288
Gain on disposal of assets and liabilities		-	1,845,948
Fair value adjustments		-	115,827
Actuarial gains		2,472,000	-
Gain on biological assets and agricultural produce		501,920	916,705
Dividends received	26	7,354	9,900
Total revenue from exchange transactions		440,581,856	433,933,410
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	126,024,542	130,017,229
Transfer revenue			
Government grants & subsidies	28	248,747,010	220,288,765
Public contributions and donations		2,443,665	-
Fines, Penalties and Forfeits		1,026,460	1,098,302
Total revenue from non-exchange transactions		378,241,677	351,404,296
Total revenue	21	818,823,533	785,337,706
Expenditure			
Employee related costs	29	(304,712,226)	(277,797,263)
Remuneration of councillors	30	(17,530,732)	(16,858,102)
Depreciation and amortisation	31	(78,037,464)	(270,006,297)
Finance costs	32	(39,898,649)	(17,093,456)
Debt Impairment	33	(136,674,680)	(101,013,505)
Bulk purchases	34	(188,543,391)	(150,681,704)
Contracted services	35	(79,854,605)	(77,310,724)
Repairs and maintenance		(17,003,191)	(11,775,432)
Loss on disposal of assets and liabilities		(3,018,923)	-
Fair value adjustments		(7,114)	-
Actuarial losses		-	(765,000)
General Expenses	36	(69,246,918)	(91,636,064)
Total expenditure		(934,527,893)	(1,014,937,547)
Deficit for the year		(115,704,360)	(229,599,841)

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2,215,039,511	2,215,039,511
Adjustments		
Prior year adjustments (See Note 46)	(11,756,815)	(11,756,815)
Balance at 01 July 2018 as restated*	2,203,282,696	2,203,282,696
Changes in net assets		
Surplus for the year	(229,599,841)	(229,599,841)
Total changes	(229,599,841)	(229,599,841)
Opening balance as previously reported	2,005,944,044	2,005,944,044
Adjustments		
Prior year adjustments (See Note 46)	(32,261,193)	(32,261,193)
Balance at 01 July 2019 as restated*	1,973,682,851	1,973,682,851
Changes in net assets		
Surplus for the year	(115,704,360)	(115,704,360)
Total changes	(115,704,360)	(115,704,360)
Balance at 30 June 2020	1,857,978,491	1,857,978,491

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Sale of goods and services		401,164,926	366,241,847
Grants		248,747,010	220,288,765
Interest income		9,432,133	26,296,454
Dividends received		7,354	9,900
		<u>659,351,423</u>	<u>612,836,966</u>
Payments			
Employee costs		(308,279,099)	(287,277,572)
Suppliers		(233,856,828)	(237,966,218)
Finance costs		(36,924,935)	(12,591,983)
		<u>(579,060,862)</u>	<u>(537,835,773)</u>
Net cash flows from operating activities	41	<u>80,290,561</u>	<u>75,001,193</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(76,601,476)	(71,208,096)
Proceeds from sale of property, plant and equipment	11	(537,985)	1,925,848
Net cash flows from investing activities		<u>(77,139,461)</u>	<u>(69,282,248)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(7,459,381)	(4,181,650)
Finance lease payments		(435,489)	(278,425)
Net cash flows from financing activities		<u>(7,894,870)</u>	<u>(4,460,075)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(4,743,770)</u>	<u>1,258,870</u>
Cash and cash equivalents at the beginning of the year		2,905,440	1,646,570
Cash and cash equivalents at the end of the year	8	<u>(1,838,330)</u>	<u>2,905,440</u>

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	404,774,000	-	404,774,000	369,464,341	(35,309,659)	Refer to Note 57
Rendering of services	-	-	-	1,690,763	1,690,763	
Rental of facilities and equipment	3,072,000	-	3,072,000	5,416,067	2,344,067	
Interest received (trading)	33,648,000	-	33,648,000	53,269,618	19,621,618	Refer to Note 57
Licences and permits	140,000	-	140,000	205,626	65,626	
Recoveries	-	-	-	981,552	981,552	
Other income	7,086,000	-	7,086,000	6,331,688	(754,312)	
Interest received - investment	200,000	-	200,000	240,927	40,927	
Dividends received	1,000,000	9,100,000	10,100,000	7,354	(10,092,646)	Refer to Note 57
Total revenue from exchange transactions	449,920,000	9,100,000	459,020,000	437,607,936	(21,412,064)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	153,342,000	-	153,342,000	126,024,542	(27,317,458)	Refer to Note 57
Transfer revenue						
Government grants & subsidies	233,105,000	-	233,105,000	248,747,010	15,642,010	Refer to Note 57
Public contributions and donations	-	-	-	2,443,665	2,443,665	
Fines, Penalties and Forfeits	2,281,000	-	2,281,000	1,026,460	(1,254,540)	
Total revenue from non-exchange transactions	388,728,000	-	388,728,000	378,241,677	(10,486,323)	
Total revenue	838,648,000	9,100,000	847,748,000	815,849,613	(31,898,387)	
Expenditure						
Personnel	(266,404,000)	-	(266,404,000)	(304,712,226)	(38,308,226)	Refer to Note 57
Remuneration of councillors	(16,829,000)	-	(16,829,000)	(17,530,732)	(701,732)	
Depreciation and amortisation	(78,991,000)	-	(78,991,000)	(78,037,464)	953,536	
Finance costs	(9,200,000)	-	(9,200,000)	(39,898,649)	(30,698,649)	Refer to Note 57
Debt Impairment	(101,112,000)	(34,000,000)	(135,112,000)	(136,674,680)	(1,562,680)	
Bulk purchases	(165,000,000)	-	(165,000,000)	(188,543,391)	(23,543,391)	Refer to Note 57
Contracted Services	(74,287,000)	16,000,000	(58,287,000)	(79,854,605)	(21,567,605)	Refer to Note 57
Repairs and maintenance	(13,147,000)	-	(13,147,000)	(17,003,191)	(3,856,191)	
General Expenses	(45,752,000)	18,000,000	(27,752,000)	(69,246,918)	(41,494,918)	Refer to Note 57
Total expenditure	(770,722,000)	-	(770,722,000)	(931,501,856)	(160,779,856)	
Operating deficit	67,926,000	9,100,000	77,026,000	(115,652,243)	(192,678,243)	
Loss on disposal of assets and liabilities	-	-	-	(3,018,923)	(3,018,923)	
Fair value adjustments	-	-	-	(7,114)	(7,114)	
Actuarial gains/losses	-	-	-	2,472,000	2,472,000	
Gain on biological assets and agricultural produce	-	-	-	501,920	501,920	
	-	-	-	(52,117)	(52,117)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Deficit before taxation	67,926,000	9,100,000	77,026,000	(115,704,360)	(192,730,360)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	67,926,000	9,100,000	77,026,000	(115,704,360)	(192,730,360)	
Reconciliation						

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	554,000	-	554,000	105,371,025	104,817,025	Refer to Note 57
Other financial assets	1,208,000	-	1,208,000	1,263,361	55,361	
Receivables from exchange transactions	1,187,000	-	1,187,000	13,211,135	12,024,135	Refer to Note 57
Receivables from non-exchange transactions	-	-	-	3,598,964	3,598,964	
VAT receivable	-	-	-	24,771,807	24,771,807	Refer to Note 57
Consumer debtors	146,661,000	-	146,661,000	126,727,297	(19,933,703)	Refer to Note 57
Cash and cash equivalents	-	-	-	233,442	233,442	
	149,610,000	-	149,610,000	275,177,031	125,567,031	
Non-Current Assets						
Biological assets that form part of an agricultural activity	-	-	-	4,650,195	4,650,195	
Investment property	-	-	-	573,611,528	573,611,528	Refer to Note 57
Property, plant and equipment	3,023,888,000	-	3,023,888,000	1,691,849,929	(1,332,038,071)	Refer to Note 57
Intangible assets	-	-	-	1,042,340	1,042,340	
Heritage assets	68,507,000	-	68,507,000	46,260,000	(22,247,000)	Refer to Note 57
Other financial assets	-	-	-	507,885	507,885	
	3,092,395,000	-	3,092,395,000	2,317,921,877	(774,473,123)	
Total Assets	3,242,005,000	-	3,242,005,000	2,593,098,908	(648,906,092)	
Liabilities						
Current Liabilities						
Other financial liabilities	3,483,000	-	3,483,000	5,106,862	1,623,862	
Finance lease obligation	-	-	-	350,577	350,577	
Payables from exchange transactions	258,467,000	-	258,467,000	647,384,191	388,917,191	Refer to Note 57
Consumer deposits	4,300,000	-	4,300,000	9,718,544	5,418,544	Refer to Note 57
Bank overdraft	-	-	-	2,071,772	2,071,772	
	266,250,000	-	266,250,000	664,631,946	398,381,946	
Non-Current Liabilities						
Other financial liabilities	32,737,000	-	32,737,000	24,352,731	(8,384,269)	Refer to Note 57
Finance lease obligation	-	-	-	746,124	746,124	
Employee benefit obligation	76,583,000	-	76,583,000	20,460,000	(56,123,000)	Refer to Note 57
Provisions	-	-	-	6,629,611	6,629,611	Refer to Note 57
Long service leave award	-	-	-	18,300,000	18,300,000	Refer to Note 57
	109,320,000	-	109,320,000	70,488,466	(38,831,534)	
Total Liabilities	375,570,000	-	375,570,000	735,120,412	359,550,412	
Net Assets	2,866,435,000	-	2,866,435,000	1,857,978,496	(1,008,456,504)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	2,866,435,000	-	2,866,435,000	1,857,978,496	(1,008,456,504)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

Figures in Rand	Note(s)	2020	2019
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1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the expected recoverable amounts. The recoverable amount is calculated by dividing the consumer debtors into categories based on their payment history and the impairment is then done on the outstanding days at year-end.

1.5 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.6 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.7 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Community Buildings	Straight-line	5 - 50 years
Plant and equipment	Straight-line	2 - 37 years
Furniture and fixtures	Straight-line	5 - 22 years
Motor vehicles	Straight-line	5 - 22 years
Office equipment	Straight-line	5 - 22 years
IT Infrastructure equipment	Straight-line	5 - 22 years
Infrastructure - Electrical	Straight-line	5 - 50 years
Infrastructure - Roads	Straight-line	7 - 80 years
Infrastructure - Sewer	Straight-line	5 - 50 years
Infrastructure - Water	Straight-line	5 - 100 years
Infrastructure - Solid Waste	Straight-line	5 - 50 years
Other assets	Straight-line	5 - 22 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

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1.7 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.8 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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Accounting Policies

1.8 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight-line	3 years

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Dihlabeng Local Municipality

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Accounting Policies

1.9 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

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Accounting Policies

1.10 Financial instruments (continued)

- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Dihlabeng Local Municipality

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Accounting Policies

1.10 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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Accounting Policies

1.11 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Dihlabeng Local Municipality

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Accounting Policies

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

Long service award

A long service award is granted to municipal employees after the completion of a fixed periods of continuous service with the municipality. The said award comprises a certain number of accumulated vacation leave days and a fixed percentage of his or her basic salary applicable at the time the award become due.

The provision represents an estimate of the award to which employees in the service of the municipality at 30 June 2020 may become entitled to in future, based on actuarial valuation at that date.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44. A brief description of the nature of each class of contingent liability should be provided and where possible.

- an estimate of its financial effect,
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dihlabeng Local Municipality

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Dihlabeng Local Municipality

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Accounting Policies

1.25 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

Dihlabeng Local Municipality

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Accounting Policies

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. Inventories		
Consumable stores	500,122	676,852
Water for distribution	327,810	168,810
Unsold Properties Held for Resale	104,205,495	104,205,495
Fuel (Diesel, Petrol)	259,773	189,430
Water chemicals	77,825	102,972
	105,371,025	105,343,559
Inventories recognised as an expense during the year	11,551,471	7,341,419
3. Other financial assets		
Designated at fair value		
Listed shares	245,721	325,849
4 169 shares in Sanlam @ R58.94 (2019 : R78.16)		
Unlisted shares	262,164	258,178
8 662 shares in Oos Vrystaat Kaap Operations Ltd @ R15.85 (2019 : R15.65)		
9 016 shares in Oos Vrystaat Kaap Holdings Ltd @ R13.85 (2019 : R13.60)		
Sanlam short term deposits	1,107,085	1,038,263
The short term deposit at Sanlam is fixed and matures at a future date.		
ABSA short term deposit	156,276	156,276
The short term deposit at ABSA is fixed and matures at a future date.		
	1,771,246	1,778,566
Non-current assets		
Designated at fair value	507,885	584,027
Current assets		
Designated at fair value	1,263,361	1,194,539
4. Receivables from exchange transactions		
Unbilled consumption to trade debtors	10,177,621	8,241,662
Pre-paid electricity from third party vendors	2,170,312	1,525,286
Sale of property debtors	863,202	790,301
	13,211,135	10,557,249

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
5. Receivables from non-exchange transactions		
Post office and petrol deposits	170,000	170,000
Other receivables from non-exchange revenue	3,373,669	3,343,020
Unpaid traffic fines	61,670,407	60,832,947
Provision for traffic fines not recoverable	(61,615,112)	(60,795,639)
	3,598,964	3,550,328
6. VAT receivable		
VAT accrued on accounts receivable	(7,132,070)	(5,848,868)
VAT accrued on accounts payable	44,553,244	32,069,660
VAT payable to / (refundable from) SARS	(12,649,367)	(12,014,290)
	24,771,807	14,206,502
7. Consumer debtors from exchange and non-exchange transactions		
Gross balances		
<i>Consumer debtors from non-exchange transactions</i>		
Rates	144,546,817	118,064,636
<i>Consumer debtors from exchange transactions</i>		
Electricity	36,389,725	34,517,577
Water	300,000,583	264,346,406
Sewerage	179,830,174	154,802,963
Refuse	224,820,902	192,570,782
Rentals, advertising and sundry charges	49,253,440	46,310,660
	934,841,641	810,613,024
Less: Allowance for impairment		
<i>Trade receivables from non-exchange transactions</i>		
Rates	(124,952,025)	(102,747,396)
<i>Trade receivables from exchange transactions</i>		
Electricity	(31,456,727)	(30,039,403)
Water	(259,332,452)	(230,051,146)
Sewerage	(155,452,363)	(134,719,436)
Refuse	(194,344,141)	(167,587,408)
Rentals, advertising and sundry charges	(42,576,636)	(40,302,499)
	(808,114,344)	(705,447,288)
Net balance		
<i>Trade receivables from non-exchange transactions</i>		
Rates	19,594,792	15,317,240
<i>Trade receivables from exchange transactions</i>		
Electricity	4,932,998	4,478,174
Water	40,668,131	34,295,260
Sewerage	24,377,811	20,083,527
Refuse	30,476,761	24,983,374
Rentals, advertising and sundry charges	6,676,804	6,008,161
	126,727,297	105,165,736

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7. Consumer debtors from exchange and non-exchange transactions (continued)

Trade receivables from non-exchange transactions

Rates

Current (0 -30 days)	10,883,128	7,409,086
31 - 60 days	4,745,909	3,850,058
61 - 90 days	3,925,935	3,106,061
91 - 120 days	3,564,233	2,731,306
121 - 365 days	26,245,706	31,008,827
> 365 days	95,181,906	69,959,298
Less: Debt impairment	(124,952,025)	(102,747,396)
	19,594,792	15,317,240

Trade receivables from exchange transactions

Electricity

Current (0 -30 days)	10,242,300	11,591,669
31 - 60 days	4,114,356	2,445,360
61 - 90 days	2,030,415	2,055,836
91 - 120 days	1,518,759	1,578,108
121 - 365 days	5,823,745	6,399,754
> 365 days	12,660,150	10,446,850
Less: Debt impairment	(31,456,727)	(30,039,403)
	4,932,998	4,478,174

Water

Current (0 -30 days)	6,006,973	6,908,827
31 - 60 days	6,427,038	5,193,979
61 - 90 days	4,675,600	4,848,147
91 - 120 days	5,084,671	4,757,297
121 - 365 days	42,200,117	40,474,765
> 365 days	235,606,184	202,163,391
Less: Debt impairment	(259,332,452)	(230,051,146)
	40,668,131	34,295,260

Sewerage

Current (0 -30 days)	4,599,021	4,745,350
31 - 60 days	3,507,176	3,633,148
61 - 90 days	3,286,094	3,340,517
91 - 120 days	3,223,807	3,197,665
121 - 365 days	26,545,487	25,722,790
> 365 days	138,668,589	114,163,493
Less: Debt impairment	(155,452,363)	(134,719,436)
	24,377,811	20,083,527

Refuse

Current (0 -30 days)	4,693,188	4,821,802
31 - 60 days	3,991,228	4,066,536
61 - 90 days	3,861,246	3,901,539
91 - 120 days	3,867,831	3,816,578
121 - 365 days	33,190,227	30,767,860
> 365 days	175,217,182	145,196,467
Less: Debt impairment	(194,344,141)	(167,587,408)
	30,476,761	24,983,374

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7. Consumer debtors from exchange and non-exchange transactions (continued)

Rental, advertising and sundry charges

Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

Less: Debt impairment

865,281	886,610
633,944	635,300
503,438	557,741
648,074	472,589
5,404,254	4,223,758
41,198,449	39,534,662
(42,576,636)	(40,302,499)
6,676,804	6,008,161

Summary of debtors by customer classification

Consumers

Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

32,419,062	32,994,799
20,912,916	17,314,073
16,555,527	15,448,324
16,369,740	14,530,186
117,790,231	108,717,427
677,823,948	572,216,649

Less: Allowance for impairment

881,871,424	761,221,458
(808,114,346)	(705,447,289)
73,757,078	55,774,169

National and provincial government

Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

4,870,830	3,685,459
2,506,735	2,827,221
1,727,203	2,678,430
1,537,634	2,340,271
8,399,731	37,000,461
33,928,086	37,974,852
52,970,219	86,506,694

Total

Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

37,289,892	36,363,344
23,419,651	19,824,380
18,282,730	17,809,841
17,907,374	16,553,543
126,189,961	127,214,260
711,752,035	592,847,657

Less: Allowance for impairment

934,841,643	810,613,025
(808,114,346)	(705,447,289)
126,727,297	105,165,736

Less: Allowance for impairment

Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

(10,870,859)	(13,870,152)
(5,707,991)	(8,156,404)
(7,028,116)	(9,425,264)
(9,813,885)	(10,810,769)
(10,512,973)	(90,968,050)
(764,180,520)	(572,216,649)
(808,114,344)	(705,447,288)

Dhlabeng Local Municipality

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7. Consumer debtors from exchange and non-exchange transactions (continued)		
Total debtor past due but not impaired		
Current (0 -30 days)	26,419,033	22,810,105
31 - 60 days	17,711,659	11,984,889
61 - 90 days	11,254,613	8,701,491
91 - 120 days	8,093,489	6,059,688
121 - 365 days	29,320,416	54,749,838
> 365 days	33,928,087	37,974,852
	126,727,297	142,280,863
Reconciliation of allowance for impairment		
Balance at beginning of the year	(705,447,289)	(696,834,058)
Contributions to allowance	(102,667,055)	(8,613,230)
	(808,114,344)	(705,447,288)

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R808,114,346 (2019: R705,447,289) were impaired and provided for.

The amount of the provision was R102,667,054 as of 30 June 2020 (2019: R8,613,232).

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	233,442	216,442
Bank balances	(2,071,772)	2,688,998
	(1,838,330)	2,905,440
Current assets	233,442	2,905,440
Current liabilities	(2,071,772)	-
	(1,838,330)	2,905,440

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA Bank - Cheque account (Primary) - 405-289-8966	2,618,984	3,614,763	3,343,466	(2,057,277)	2,714,800	1,459,452
ABSA Bank - Cheque account (Project) - 100-001-0223	934	(914)	5,953	(14,527)	(26,024)	5,953
ABSA Bank - Cheque account - 40-8862-1820	252	222	50	32	222	50
Total	2,620,170	3,614,071	3,349,469	(2,071,772)	2,688,998	1,465,455

9. Biological assets that form part of an agricultural activity

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game stock	4,650,195	-	4,650,195	4,148,275	-	4,148,275

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9. Biological assets that form part of an agricultural activity (continued)

Reconciliation of biological assets that form part of an agricultural activity - 2020

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	4,148,275	501,920	4,650,195

Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	3,231,570	916,705	4,148,275

Non-financial information

Quantities of each biological asset

Game stock	2,315	1,970
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No stock count were performed by the Community Services department in June 2020 due to the COVID-19 regulations and an estimated numbers were used. The Department of Economic, Small Business development, tourism and environmental affairs of the Free State (DESTEA) normally assists the municipality in managing the Wolhuterskop Private Nature Reserve by giving a report indicating which animals should be removed and / culled during the next financial year.

10. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	573,611,528	-	573,611,528	573,611,529	-	573,611,529

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	573,611,529	573,611,529

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	573,611,529	573,611,529

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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11. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community buildings	237,761,505	(142,520,062)	95,241,443	235,688,904	(110,916,638)	124,772,266
Furniture and fittings	7,155,338	(5,008,616)	2,146,722	5,137,013	(3,587,960)	1,549,053
Infrastructure - Electrical	228,518,447	(108,218,081)	120,300,366	222,163,356	(109,008,816)	113,154,540
Infrastructure - Roads	1,021,024,448	(611,637,365)	409,387,083	978,967,395	(585,165,348)	393,802,047
Infrastructure - Sewer	533,376,207	(230,264,788)	303,111,419	515,172,492	(249,933,707)	265,238,785
Infrastructure - Solid waste	18,240,349	(9,909,350)	8,330,999	18,465,936	(9,607,497)	8,858,439
Infrastructure - Storm water	88,198,306	(45,657,313)	42,540,993	124,723,182	(64,615,561)	60,107,621
Infrastructure - Water	619,036,445	(204,811,217)	414,225,228	635,156,414	(190,588,525)	444,567,889
Land owned	-	-	-	213,557,384	-	213,557,384
Motor vehicles	24,559,022	(16,543,953)	8,015,069	15,226,078	(10,013,806)	5,212,272
Office equipment	8,169,667	(4,915,393)	3,254,274	14,421,172	(10,453,664)	3,967,508
Operational buildings	274,921,596	(7,999,237)	266,922,359	68,990,674	(34,255,133)	34,735,541
Other property, plant and equipment	-	-	-	993,233	(910,620)	82,613
Plant and equipment	6,091,208	(3,830,024)	2,261,184	16,148,869	(11,569,401)	4,579,468
Railways	48,921,029	(32,808,239)	16,112,790	48,921,029	(29,971,681)	18,949,348
Total	3,115,973,567	(1,424,123,638)	1,691,849,929	3,113,733,131	(1,420,598,357)	1,693,134,774

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals / Write-off's	Transfers, movement in WIP and other	Depreciation	Total
Community buildings	124,772,266	-	-	(22,350,881)	(7,179,942)	95,241,443
Furniture and fittings	1,549,053	368,492	(153,879)	1,032,163	(649,107)	2,146,722
IT infrastructure equipment	-	-	(45,704)	45,723	(19)	-
Infrastructure - Electrical	113,154,540	11,259,087	-	(209,182)	(3,904,079)	120,300,366
Infrastructure - Roads	393,802,047	3,853,834	-	41,089,382	(29,358,180)	409,387,083
Infrastructure - Sewer	265,238,785	43,960,684	-	4,720,384	(10,808,434)	303,111,419
Infrastructure - Solid waste	8,858,439	-	-	-	(527,440)	8,330,999
Infrastructure - Storm water	60,107,621	-	-	(16,466,247)	(1,100,381)	42,540,993
Infrastructure - Water	444,567,889	16,860,202	-	(32,261,589)	(14,941,274)	414,225,228
Land owned	213,557,384	-	-	(213,557,384)	-	-
Motor vehicles	5,212,272	172,000	(180,844)	4,991,125	(2,179,484)	8,015,069
Office equipment	3,967,508	109,438	(235,914)	318,021	(904,779)	3,254,274
Operational buildings	34,735,541	-	-	234,874,800	(2,687,982)	266,922,359
Other property, plant and equipment	82,613	-	-	(82,613)	-	-
Plant and equipment	4,579,468	2,461,404	(90,460)	(3,917,837)	(771,391)	2,261,184
Railways	18,949,348	-	-	-	(2,836,558)	16,112,790
	1,693,134,774	79,045,141	(706,801)	(1,774,135)	(77,849,050)	1,691,849,929

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers to / from Work in progress	Depreciation	Impairment loss	Total
Community buildings	165,098,273	2,410,430	-	980,576	(8,651,518)	(35,065,495)	124,772,266
Furniture and fittings	1,802,212	209,128	-	-	(446,387)	(15,900)	1,549,053
Infrastructure - Electrical	105,883,410	127,098	-	15,467,742	(5,512,974)	(2,810,736)	113,154,540
Infrastructure - Roads	490,489,247	20,195,932	-	(14,525,636)	(34,364,771)	(67,992,725)	393,802,047
Infrastructure - Sewer	311,716,194	5,102,609	-	13,751,611	(12,146,025)	(53,185,604)	265,238,785
Infrastructure - Solid waste	10,807,799	-	-	-	(612,735)	(1,336,625)	8,858,439
Infrastructure - Storm water	69,711,531	6,692,214	-	510,450	(2,146,702)	(14,659,872)	60,107,621
Infrastructure - Water	447,228,016	-	-	17,237,223	(15,664,607)	(4,232,743)	444,567,889
Land owned	213,557,384	-	-	-	-	-	213,557,384
Motor vehicles	5,870,430	304,158	-	-	(962,316)	-	5,212,272
Office equipment	3,853,555	2,144,020	-	-	(1,671,705)	(358,362)	3,967,508
Operational buildings	38,016,035	-	-	433,340	(1,272,253)	(2,441,581)	34,735,541
Other property, plant and equipment	217,935	-	(79,900)	-	(55,422)	-	82,613
Plant and equipment	5,476,693	167,206	-	-	(1,064,431)	-	4,579,468
Railways	21,750,205	-	-	-	(2,800,857)	-	18,949,348
	1,891,478,919	37,352,795	(79,900)	33,855,306	(87,372,703)	(182,099,643)	1,693,134,774

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	66,794,260	1,926,981	68,721,241
Additions/capital expenditure	75,933,807	-	75,933,807
Written off to Repairs and maintenance	(53,033,294)	(259,860)	(53,293,154)
Transferred to completed items	(203,065)	(1,667,121)	(1,870,186)
	89,491,708	-	89,491,708

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11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	35,065,507	513,043	35,578,550
Additions/capital expenditure	63,364,779	3,824,367	67,189,146
Transferred to completed items	(31,636,026)	(2,410,429)	(34,046,455)
	66,794,260	1,926,981	68,721,241

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

12. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3,900,719	(2,858,379)	1,042,340	4,129,511	(2,977,334)	1,152,177

Reconciliation of intangible assets - 2020

	Opening balance	Transfers	Amortisation	Total
Computer software	1,152,177	78,575	(188,412)	1,042,340

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	1,686,129	(533,952)	1,152,177

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13. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	46,260,000	-	46,260,000	46,260,000	-	46,260,000

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

Reconciliation of heritage assets 2019

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

Valuation of heritage assets

Valuations were performed by an independent valuer, Mr Athur Lelosa, who holds a recognised and relevant qualification, during 2015. A certificate to this extent was received from the above-mentioned valuator.

The municipality had assessed the heritage assets at year-end and confirms that there was no need for these assets to be impaired at the end of the financial period.

Heritage assets used for more than one purpose

The following heritage assets are used by the entity for more than one purpose:

- Erf 172 in President Boshoff street in Bethlehem is used as offices for the traffic department
- Erf 318 in Market street in Clarens is used as municipal offices

14. Other financial liabilities

At amortised cost

Development Bank of South Africa (DBSA)

Interest is charged at 10% per year. The loan is repayable in monthly installments of R621,615 over a period of 5 years.

29,459,593	33,725,003
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Non-current liabilities

At amortised cost

24,352,731	29,097,963
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Current liabilities

At amortised cost

5,106,862	4,627,040
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15. Finance lease obligation		
Minimum lease payments due		
- within one year	350,577	307,503
- in second to fifth year inclusive	746,124	1,102,213
Present value of minimum lease payments	1,096,701	1,409,716
Non-current liabilities	746,124	1,102,193
Current liabilities	350,577	307,523
	1,096,701	1,409,716

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4 years and the average effective borrowing rate was 7.25% (2019: 10.25%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

16. Payables from exchange transactions

Trade payables	557,728,581	428,628,528
Trade receivables with credit balances	14,071,589	5,143,544
Deposits on land sales	5,120,725	5,120,725
Deposits received	302,361	299,832
Sundry creditors	3,254,419	3,223,307
Salary related creditors	25,647,008	18,917,103
Accrued bonus	6,274,338	6,074,310
Accrued leave	31,103,232	25,355,306
Retention on projects	3,881,940	4,582,413
	647,384,193	497,345,068

17. Consumer deposits

Water and electricity	9,718,544	8,733,153
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18. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	6,972,342	(342,731)	6,629,611

Reconciliation of provisions - 2019

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	6,791,554	180,788	6,972,342

Environmental rehabilitation provision

Bethlehem Dumping site:

The new dumping site in Bethlehem became operational on 1 December 2010 as the old dumping site was closed. On a monthly basis the site is filled with approximately 6,200 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was originally assessed by Metsi Metseng Geological & Environmental Services and based on the assessment, the provision for the rehabilitation and the closure of the landfill site was calculated over a period of 20 years. The landfill site was assessed by EnviroMatrix (Pty) Ltd and due to the decrease in the amount of waste (due to recycling) the lifespan was increase to 25 years.

The following key assumptions were made that can impact considerably on the calculations of the provision if they change:

- provision was made for the disposal of 2 985 100 cubic meters waste what will fill an area of 115 600 square metres x 18 meters high over a lifespan of 25 years
- an average disposal tempo of 300 cubic meters per day over the 25 years lifespan was used for the cost calculations
- an annual inflationary increase of 3.5% (2019 : 4.3%) was used of the projected costs

Mashaeng Dumping Site:

The site was developed in 1992 with a lifespan of approximately 30 years. On a monthly basis, the site is filled with approximately 210 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was assessed by EnviroMatrix (Pty) Ltd and based on the assessment, the provision for the rehabilitation and the closure of the landfill site will have an estimated lifespan of 2 years.

The following key assumptions were made that can impact considerably on the calculations of the provision if they change:

- provision was made for the disposal of 55 270 cubic meters waste what will fill the area within the remaining lifespan of 2 years
- an average disposal tempo of 7 cubic meters per day over the 2 years lifespan was used for the cost calculations
- an annual inflationary increase of 3.5% (2019 : 4.3%) was used of the projected costs

General for both sites:

Proper management of the site will increase the number of years of operation and will ensure that environmental compliance is adhered to. The timing of the cashflow is uncertain.

An assessment was done on 28 August 2020 by the firm EnviroMatrix (Pty) Ltd to estimate the total closure cost of the current dumping sites in accordance with its licence agreements.

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19. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(20,460,000)	(22,000,000)
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(22,000,000)	(21,981,000)
Benefits paid	2,369,000	2,264,000
Net expense recognised in the statement of financial performance	(829,000)	(2,283,000)
	<u>(20,460,000)</u>	<u>(22,000,000)</u>

Net expense recognised in the statement of financial performance

Interest cost	(2,067,000)	(2,007,000)
Actuarial (gains) losses	1,238,000	(276,000)
	<u>(829,000)</u>	<u>(2,283,000)</u>

Key assumptions used

The post retirement medical aid liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by-member basis, taking into account the liabilities arising in respect of principal members and their spouses. Ages are calculated as per age on 30 June 2020.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the approximation that the post-retirement benefit is notionally built up over the employees' working life.

The actuarial valuation of the PRMA (post-retirement medical aid) liability involves the following:

- the projection of future post-retirement medical contribution subsidy cash flows, taking into account the probabilities of survival, withdrawal, ill-health retirement, early retirement and death in service
- the medical contribution subsidies arising in respect of adult dependents of employees
- increasing the projected subsidy cashflows in line with expected long-term contribution escalation
- discounting these cashflows in order to express the PRMA liability in current Rand terms

Discount rate used: GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

CPI used (Consumer Price Inflation): Difference between nominal and yield curves.

Medical Aid Contribution Inflation: CPI + 1%

Net effective discount rate: Yield curve based.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All councillors and employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 are in the process of being finalised and will be submitted to the Municipality once approved by the executive committee of the fund. Information could not be obtained for the other two funds regarding the administrators no the actuaries.

The municipality is under no obligation to cover any unfunded benefits.

Dihlabeng Local Municipality

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20. Long service leave award

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(17,946,000)	(15,509,000)
Benefits paid	2,232,000	1,287,000
Net expense recognised in the statement of financial performance	(2,586,000)	(3,724,000)
	(18,300,000)	(17,946,000)

Net expense recognised in the statement of financial performance

Past service cost	(2,007,000)	(1,717,000)
Interest cost	(1,813,000)	(1,518,000)
Actuarial (gains) losses	1,234,000	(489,000)
	(2,586,000)	(3,724,000)

Key assumptions used

The long service leave liability is valued on a generally accepted actuarial valuation method. Ages and gender information at 30 June 2020 were used.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the expected value of each employee's long service award and is projected to the next interval by allowing for future salary growth.

The actuarial valuation of the Long service leave liability involves the following:

- long service benefits are awarded in the form of leave days and a percentage of salary
- the calculated award values are then discounted at the assumed discount interest rate to the date of the calculation
- mortality, retirements and withdrawals from service are also taken into account
- the liability is determined on the basis that each employee's long service benefits accrues uniformly over the working life of an employee up to the end of the interval at which the benefits becomes payable
- the current policy for awarding long service awards remains unchanged in the future

21. Revenue

Rendering of services	1,690,763	1,549,638
Service charges	369,464,341	357,686,363
Rental of facilities and equipment	5,416,067	5,062,736
Agency services	53,269,618	52,420,956
Licences and permits	205,626	152,674
Recoveries	981,552	-
Other income	6,331,688	14,121,375
Interest received - investment	240,927	51,288
Dividends received	7,354	9,900
Property rates	126,024,542	130,017,229
Government grants & subsidies	248,747,010	220,288,765
Public contributions and donations	2,443,665	-
Fines, Penalties and Forfeits	1,026,460	1,098,302
	815,849,613	782,459,226

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21. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	369,464,341	357,686,363
Rendering of services	1,690,763	1,549,638
Rental of facilities and equipment	5,416,067	5,062,736
Agency services	53,269,618	52,420,956
Licences and permits	205,626	152,674
Recoveries	981,552	-
Other income	6,331,688	14,121,375
Interest received - investment	240,927	51,288
Dividends received	7,354	9,900
	437,607,936	431,054,930

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	126,024,542	130,017,229
Transfer revenue		
Government grants & subsidies	248,747,010	220,288,765
Public contributions and donations	2,443,665	-
Fines, Penalties and Forfeits	1,026,460	1,098,302
	378,241,677	351,404,296

22. Service charges

Sale of electricity	205,157,044	193,022,083
Sale of water	74,903,338	69,403,152
Sewerage and sanitation charges	45,228,216	48,725,127
Refuse removal	44,175,743	46,536,001
	369,464,341	357,686,363

23. Rental of facilities and equipment

Premises		
Premises	5,416,067	4,633,250
Facilities and equipment		
Rental of equipment	-	429,486
	5,416,067	5,062,736

24. Interest received on consumer accounts

Property rates	8,691,725	8,178,458
Electricity	1,225,821	1,099,573
Water	17,285,029	17,344,489
Sewerage and sanitation	10,528,559	10,388,173
Refuse	13,392,266	13,262,181
Rentals, advertising and sundry charges	2,146,218	2,148,082
	53,269,618	52,420,956

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25. Other income		
Awards received	-	250,000
Building plan fees	357,065	510,720
Clearance certificates	544,800	529,746
Encroachment charges	1,312,686	1,152,114
Escorting of abnormal freights	103,927	199,258
Insurance claims received	40,545	84,354
Skills development levies received	3,317,653	2,372,195
Sundry income	418,549	8,635,233
Tender documents, photocopies and faxes	236,463	387,755
	6,331,688	14,121,375
26. Investment revenue		
Dividend revenue		
Investments	7,354	9,900
Interest revenue		
Bank	155,566	(30,394)
Investments	85,361	81,682
	240,927	51,288
	248,281	61,188

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27. Property rates

Rates received

Residential	49,021,188	46,695,617
Commercial	68,764,378	53,554,795
State	31,716	24,466,902
Small holdings and farms	8,207,260	5,299,915
	126,024,542	130,017,229

Valuations

Valuations per valuation roll

	R '000	R '000
Residential	6,194,968	7,134,686
Commercial	2,846,260	2,173,255
Government	12,108	1,748,034
Municipal	743,325	752,795
Small holdings and farms	4,815,767	3,748,060
	14,612,428	15,556,830

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.0087316 (2019: R0.0083) is applied to residential and small holding property valuations to determine assessment rates. Rebates of R40,000 (2019: R40,000) are granted to residential property owners and a further 25% (2019 : 25%) rebate to pensioners.

A general rate of R0.0261948 (2019: R0.0249) is applied to business, industrial commercial and public service infrastructure property valuations to determine assessment rates. Rebates of 90% (2019: 80%) are granted to public service infrastructure only.

A general rate of R0.01315 (2019: R0.0083) is applied to farm property valuations to determine assessment rates. Rebates of 85% (2019: 85%) are granted to farmers and 75% (2019 : 75%) for small holdings. The rebated granted to farmers are done in accordance with Section 21 of the Municipal Property Rates Act (Act no 6 of 2004).

Rates to farmers and national government are levied on an annual basis with the final date for payment being 7 August 2020. Rates for all other consumers are levied on a monthly basis with the final date for payment before the 7th of each month. Interest at prime plus 1% per annum (2019: prime plus 1%) is levied on rates outstanding after the due date.

The new general valuation will be implemented on 01 July 2021.

Dihlabeng Local Municipality

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28. Government grants and subsidies

Operating grants

Equitable share	164,487,000	147,861,000
Expanded Public Works Program grant	1,375,000	1,000,000
Municipal Disaster Relief grant	864,000	-
Financial Management grant	2,235,000	1,770,000
Library grant	3,000,000	2,750,000
	171,961,000	153,381,000

Capital grants

Municipal Infrastructure grant (MIG)	48,648,000	37,914,000
Department of Water Affairs grant (DWAF)	2,802,010	2,443,765
Water Service Infrastructure grant	14,323,000	16,550,000
National Development Electrification grant	11,013,000	10,000,000
	76,786,010	66,907,765
	248,747,010	220,288,765

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	84,260,010	72,427,765
Unconditional grants received	164,487,000	147,861,000
	248,747,010	220,288,765

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2019: R -), which is funded from the grant.

Expanded Public Works Program grant

Current-year receipts	1,375,000	1,000,000
Conditions met - transferred to revenue	(1,375,000)	(1,000,000)
	-	-

The expanded public works programme grant was fully utilised during the financial year.

Municipal Disaster Relief grant

Current-year receipts	864,000	-
Conditions met - transferred to revenue	(864,000)	-
	-	-

The municipal disaster relief grant was fully utilised during the financial year for the prevention of the COVID-19 pandemic.

Financial Management grant

Current-year receipts	2,235,000	1,770,000
Conditions met - transferred to revenue	(2,235,000)	(1,770,000)
	-	-

The municipal management grant was fully utilised during the financial year.

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28. Government grants and subsidies (continued)

Library grant

Current-year receipts	3,000,000	2,750,000
Conditions met - transferred to revenue	(3,000,000)	(2,750,000)
	-	-

The library grant was fully utilised during the financial year.

Municipal Infrastructure grant (MIG)

Current-year receipts	48,648,000	37,914,000
Conditions met - transferred to revenue	(48,648,000)	(37,914,000)
	-	-

This grant was fully utilised for the upgrading of sports facilities, sanitation (upgrading of waste water treatment works) and the construction of roads during the year. The grant also included an additional R10m that was used for water and sanitation works to prevent the spread of the COVID-19 virus.

Department of Water Affairs grant (DWAF)

Current-year receipts	2,802,010	2,443,765
Conditions met - transferred to revenue	(2,802,010)	(2,443,765)
	-	-

This grant was utilised during the year for the upgrading of the water infrastructure network to Paul Roux and Rosendal.

Water Service Infrastructure grant

Current-year receipts	14,323,000	16,550,000
Conditions met - transferred to revenue	(14,323,000)	(16,550,000)
	-	-

The water service infrastructure grant was fully utilised during the financial year for the upgrading of reservoirs in Clarens and Bohlokong.

National Development Electrification grant

This grant was fully utilized during the year under review.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 4 of 2020), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Dihlabeng Local Municipality

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29. Employee related costs

Basic	175,924,643	162,526,486
Bonus	13,584,455	12,871,059
Medical aid - company contributions	22,689,203	21,113,175
UIF	1,559,608	1,516,255
WCA	2,213,429	1,327,102
SDL	2,155,617	2,367,579
Other payroll levies	90,600	86,643
Leave pay provision charge	7,096,462	5,200,372
Defined contribution plans	4,440,083	4,256,037
Overtime payments	14,140,629	11,115,842
Long-service awards	252,956	297,163
Standby allowances	7,581,861	6,699,649
Acting allowances	5,266,486	3,729,316
Car allowance	7,545,852	5,923,206
Housing benefits and allowances	1,902,564	1,801,707
Arbitration awards and other incidental costs	19,296	243,036
Group life insurance	818,571	728,653
Pensionfund contributions	28,237,307	26,978,690
Other allowances	581,169	534,478
Telephone allowances	376,000	359,900
	296,476,791	269,676,348

Remuneration of municipal manager

Annual Remuneration	1,152,315	1,139,539
Car Allowance	384,700	380,441
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone Allowance	18,000	18,000
Leave paid out	63,168	85,219
	1,619,968	1,624,984

Remuneration of chief finance officer

Annual Remuneration	941,636	915,939
Car Allowance	314,474	305,908
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	73,418	73,418
	1,343,313	1,309,050

Remuneration of director public works

Annual Remuneration	941,636	915,939
Car Allowance	314,474	305,908
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	39,156	73,418
	1,309,051	1,309,050

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29. Employee related costs (continued)

Remuneration of director corporate services

Annual Remuneration	941,636	915,939
Car Allowance	314,474	305,908
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	44,051	48,945
Acting Allowance	-	14,311
	1,313,946	1,298,888

Remuneration of director community services

Annual Remuneration	941,636	915,939
Car Allowance	314,474	305,908
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	48,945	48,945
	1,318,840	1,284,577

Remuneration of director of local economics development

Annual Remuneration	941,636	915,939
Car Allowance	314,474	305,908
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	-	58,734
Acting Allowance	60,422	-
	1,330,317	1,294,366

30. Remuneration of councillors

2020	Allowance	Travel allowance	Cellphone allowance	Total
Executive Mayor	893,850	-	40,800	934,650
Speaker	715,078	-	40,800	755,878
Chairperson Public Accounts committee	363,017	-	40,800	403,817
Chairperson Policy committee	290,414	72,603	40,800	403,817
Mayoral executive committee	3,974,192	718,517	285,600	4,978,309
Councillors	7,836,954	1,074,907	1,142,400	10,054,261
	14,073,505	1,866,027	1,591,200	17,530,732

2019	Allowance	Travel allowance	Cellphone allowance	Total
Executive Mayor	859,471	-	40,800	900,271
Speaker	687,575	-	40,800	728,375
Chairperson Public Accounts committee	274,106	68,527	40,800	383,433
Chairperson Policy committee	342,633	-	40,800	383,433
Mayoral executive committee	3,953,565	558,656	285,600	4,797,821
Councillors	7,650,883	883,968	1,129,918	9,664,769
	13,768,233	1,511,151	1,578,718	16,858,102

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30. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Speaker, Chief whip, chairpersons of committees and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

31. Depreciation and amortisation

Intangible assets	188,412	533,952
Property, plant and equipment	77,849,052	269,472,345
	78,037,464	270,006,297

32. Finance costs

Loans and finance leases	3,316,445	3,740,919
Bank	721,308	-
Penalties and interest on late payment of VAT	2,460,592	2,055,857
Other interest paid	33,400,304	11,296,680
	39,898,649	17,093,456

33. Debt impairment

Contributions to debt impairment on consumer debtors and exchange debtors	73,434,097	(17,091,961)
Contributions to debt impairment on non-exchange debtors	23,024,102	28,019,372
Bad debts written off	40,216,481	90,086,094
	136,674,680	101,013,505

34. Bulk purchases

Electricity - Eskom	168,082,710	149,560,579
Water	20,460,681	1,121,125
	188,543,391	150,681,704

Electricity losses

	Number 2020	Number 2019		
Units purchased	148,573,004	150,207,164	169,157,942	149,560,579
Units sold	(125,529,173)	(133,141,648)	(205,157,044)	(69,403,152)
Total loss	23,043,831	17,065,516	(35,999,102)	80,157,427
Rand value of loss			26,236,577	16,992,056
Percentage loss			15.51 %	11.36 %

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34. Bulk purchases (continued)

Water losses

	Number 2020	Number 2019		
Units purified	11,033,690	10,778,810	48,655,667	24,874,618
Units sold	(6,653,300)	(7,732,111)	(74,903,338)	(69,403,152)
Total	8,760,780	6,093,398	(26,247,671)	(44,528,534)
Rand value of losses			64,041,302	10,389,244
Technical losses			39.70 %	24.27 %

35. Contracted services

Outsourced Services

Burial Services	33,770	174,422
Catering Services	209,000	233,372
Commissions and committees	100,647	81,454
Meter Management	3,095,797	2,942,067
Occupational health and safety	516,981	32,550
Project Management	-	65,040
Refuse Removal	3,783,204	6,955,855
Security Services	26,004,792	25,423,719

Consultants and Professional Services

Business and Advisory	27,674,380	22,032,840
Infrastructure and Planning	1,773,974	2,308,450
Legal Cost	3,572,929	3,422,287

Contractors

Artists and Performers	-	208,087
Audio-visual Services	84,900	259,699
Catering Services	1,385,585	4,771,141
Electrical	5,837,847	3,330,838
Employee Wellness	190,000	186,550
Event Promoters	15,695	465,550
Gas	-	895
Photographer	21,000	42,160
Prepaid Electricity Vendors	3,190,754	2,981,719
Transportation	-	8,400
Sports and Recreation	118,450	270,829
Stage and Sound Crew	2,244,900	1,112,800
	79,854,605	77,310,724

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36. General expenses		
Advertising	747,780	785,404
Management fees	-	638,825
Auditors remuneration	6,472,522	7,379,146
Bank charges	1,514,166	1,526,347
Bursaries	1,183,623	2,240,736
Consumables	11,551,471	7,341,419
Donations	1,213,446	3,388,342
Electricity	11,205,305	9,017,655
Entertainment	36,203	44,030
Fuel and oil	6,778,870	7,839,143
Insurance	2,503,110	1,856,099
License fees	358,527	571,637
Pest control	774,940	-
Postage and courier	1,365,430	4,082,782
Printing and stationery	1,427,514	1,742,060
Promotions and sponsorships	1,288,338	1,819,401
Property lease payments	942,810	591,368
Rental of equipment	7,428,573	27,132,194
Subscriptions and membership fees	3,236,156	2,965,146
Telephone and fax	3,183,956	1,532,079
Transport cost	2,737,720	4,966,230
Travel - local	2,710,251	2,059,993
Travel - overseas	-	51,736
Uniforms	586,207	2,064,292
	69,246,918	91,636,064
37. Gains or losses on biological assets		
Gains or losses arising from a change in fair value less point of sale costs	501,920	916,705
38. Fair value adjustments		
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	(7,114)	115,827
39. Auditors' remuneration		
Fees	6,472,522	7,379,146
40. Operating lease income		
Projected income from operating lease agreements		
- Within one year	655,453	642,885
- In second to fifth year (inclusive)	752,140	1,407,594
	1,407,593	2,050,479

Rental contracts for the different flats (100), vacant land (7) and houses (160) are signed for a period of 12 months, thereafter the contract is done on a month to month basis. All the house and flat contracts have a month notice period. New tenants are normally found within that period. The projected income are thus only included in the period within one year. Contracts for business premises (7) rental are signed for periods of 3 years to 9 years and 11 months. Escalation on these contracts are done on an annual basis linked to the inflation rate.

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41. Cash generated from operations

Deficit	(115,704,360)	(229,599,841)
Adjustments for:		
Depreciation and amortisation	78,037,464	270,006,297
Gain / (loss) on sale of assets and liabilities	3,018,923	(1,845,948)
Gain / (loss) on games stock	(501,920)	(916,705)
Gain / (loss) on actuarial valuation	(2,472,000)	765,000
Fair value adjustments	7,114	(115,827)
Debt impairment	136,674,680	101,013,505
Changes in working capital:		
Inventories	(27,466)	425,514
Receivables from exchange transactions	(2,653,886)	558,983
Consumer debtors	(150,388,439)	(164,091,665)
Other receivables from non-exchange transactions	(30,649)	(799,223)
Payables from exchange transactions	151,282,087	90,838,382
VAT	(17,593,647)	7,229,704
Consumer deposits	985,391	1,352,229
Provision	(342,731)	180,788
	80,290,561	75,001,193

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42. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,771,246	-	-	1,771,246
Trade and other receivables from exchange transactions	-	13,211,135	-	13,211,135
Other receivables from non-exchange transactions	-	3,428,964	170,000	3,598,964
Consumer debtors	-	126,727,297	-	126,727,297
Cash and cash equivalents	-	233,442	-	233,442
	1,771,246	143,600,838	170,000	145,542,084

Financial liabilities

	At amortised cost	Total
Other financial liabilities	29,459,593	29,459,593
Trade and other payables from exchange transactions	647,384,193	647,384,193
Bank overdraft	2,071,772	2,071,772
Consumer deposits	9,718,544	9,718,544
Finance lease obligation	1,096,701	1,096,701
	689,730,803	689,730,803

2019

Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,778,566	-	-	1,778,566
Trade and other receivables from exchange transactions	-	10,557,249	-	10,557,249
Other receivables from non-exchange transactions	-	3,176,471	170,000	3,346,471
Consumer debtors	-	142,279,862	-	142,279,862
Cash and cash equivalents	-	2,889,113	-	2,889,113
	1,778,566	158,902,695	170,000	160,851,261

Financial liabilities

	At amortised cost	Total
Other financial liabilities	33,725,003	33,725,003
Trade and other payables from exchange transactions	481,170,532	481,170,532
Consumer deposits	8,733,153	8,733,153
Finance lease liability	1,409,716	1,409,716
	525,038,404	525,038,404

Dihlabeng Local Municipality

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Figures in Rand	2020	2019
43. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	2,079,439	35,862,544
Total capital commitments		
Already contracted for but not provided for	2,079,439	-
Authorised operational expenditure		
Already contracted for but not provided for		
• Land audit and asset registers	-	2,196,031
• Landfill site management	21,000,019	-
	21,000,019	2,196,031
Total operational commitments		
Already contracted for but not provided for	21,000,019	-
Total commitments		
Total commitments		
Authorised capital expenditure	2,079,439	35,862,544
Authorised operational expenditure	21,000,019	2,196,031
	23,079,458	38,058,575
Project Description: Walking Tall Trading and Projects - Events management services		
Project Value: As per pricing schedule		
Expenditure to date: R19,831,593 (2020) R17,591,369 (2019)		
Project Description: Hamisa Trading - Appointment of a service providers to supply and deliver bulk fuel and maintenance of fuel storage tanks to the four (4) depots for a period of 3 years		
Project Value: As per pricing schedule		
Expenditure to date: R6,330,901 (2020) R- (2019)		
Project Description: Megaphase Road Signage (Pty) Ltd, Imbumba Plant Hire (Pty) Ltd and Lengau Painting And Waterproofing - Appointment of service provider for the supply and delivery of road marking paint, thinners and road traffic signs on as and when required for a period of three (3) years		
Project Value: As per pricing schedule		
Expenditure to date: R1,117,499 (2020) R- (2019)		
Project Description: Jager (Pty) Ltd - Appointment of service provider for the supply of automated meter reading (AMR) equipment and installation of a compatible software for a period of three (3) years		
Project Value: As per pricing schedule		
Expenditure to date: R- (2020) R- (2019)		
Project Description: Little Venice Trading 53 CC - Appointment of service provider for the connection and disconnection of electricity for a period of three (3) years		
Project Value: As per pricing schedule		
Expenditure to date: R1,278,564 (2020) R- (2019)		

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Figures in Rand		2020	2019
43. Commitments (continued)			
Project Description:	Aqua Transport & Plant Hire (Pty) Ltd / Ethos Transport / Midmar Plant Hire / Oos Vrystaat / Premier Attraction - Appointment of water tankers		
Project Value:	As per pricing schedule		
Expenditure to date:	R3,370,849 (2020)	R2,825,901 (2019)	
Project Description:	Carboncor Distributor / Super Patch / Wide in Tide - Supply & delivery of 25kg bags of cold mix asphalt on an as and when required basis for a period of 3 years		
Project Value:	As per pricing schedule		
Expenditure to date:	R7,813,633 (2020)	R2,990,709 (2019)	
Project Description:	Amaphiko Ejuba Transport Enterprises, Aqua Transport & Plant Hire, Midmaar Plant Hire, Oos Vrystaat & Premier Attraction, Ekene Investment - Hire of Plant & Equipment on an as and when required basis for a period of 3 years		
Project Value:	As per pricing schedule		
Expenditure to date:	R16,033,117 (2020)	R11,157,495 (2019)	
Project Description:	Kunene & Makopo Risk Solution - Short term Insurance for a period of three (3) years		
Project Value:	As per pricing schedule		
Expenditure to date:	R4,759,918 (2020)	R1,946,822 (2019)	
Project Description:	Aquatico Laboratories - rendering of Laboratory Service for the analysis of water & wastewater samples for a period of three (3) years		
Project Value:	As per pricing schedule		
Expenditure to date:	R201,724 (2020)	R- (2019)	
Project Description:	Appconverge & Pontmas Trading - Supply & delivery of Computers for a period of three (3) years		
Project Value:	As per pricing schedule		
Expenditure to date:	R3,441,732 (2020)	R1,281,318 (2019)	
Project Description:	Maluti Chartered Accountants - Compilation of Annual Financial Statement for a period of 3 years		
Project Value:	As per pricing schedule		
Expenditure to date:	R1,087,900 (2020)	R- (2019)	
Project Description:	Turbo Tech Trading (Pty) Ltd, Pump Group, Thoboza Investment & Bicacon - Appointment of a Panel of four (4) Service Providers for the repairs, maintenance, refurbishment and upgrading of water & sanitation infrastructure for a period of three (3) years from the date of appointment		
Project Value:	As per pricing schedule		
Expenditure to date:	R48,535,265 (2020)	R- (2019)	
Project Description:	I X Engineers (Pty) Ltd, Kgolokwe Tech, Lyon & Partners, Nakedi Projects, Ndlovu Ngonyama & Nemarango Consulting - Appointment of a Panel of Six (6) Consulting Engineers for Provision of Engineering Services for a period of three (3) years from the date of appointment		
Project Value:	As per pricing schedule		
Expenditure to date:	R24,580,285 (2020)	R- (2019)	

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44. Contingencies		
Telkom Limited SA: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R141 514. Telkom claim that a sewerage spillage damaged their equipment. Possible liability of R141 514.	141,514	141,514
Udumo Trading 147 CC: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Udumo Trading lodged against the Dihlabeng Local Municipality for R3 700 000. Udumo claim that they completed a reservoir in Clarens and was not fully paid. Possible liability of R3 700 000.	4,000,000	3,700,000
Wage curve agreements: Dihlabeng has not been task graded as yet and therefore the new T scales cannot be implemented. No job grade evaluations has been done either for the posts at DLM. Since this information is not available yet, no financial implications can be established. Only after the job evaluations has been accepted and approved by all the applicable parties a financial implication can be calculated.	-	-
Damcivils (Pty) Ltd: This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment for services rendered by Damcivils for the roads and stormwater project in Bakenpark ext 5. It was concluded that Damcivils was a subcontractor for Emendo and that the Municipality did not have a contract with them and the case was closed.	-	31,925,142
MP Mofokeng and NE Chitja: This case is handled by Niemann Grobbelaar Attorneys and is regarding a child that fell in an open manhole and died. This matter was referred to the insurance company of the municipality and they will handle it further and this case was closed.	-	600,000
Telkom SA Soc Ltd and Icon Construction (Pty) Ltd: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the total amount of R211 669. Telkom claim that telecommunication cables and/or telecommunication infrastructure was damaged at or near Stands 36, 60, 102 and 145, Fateng tse Ntsho, Paul Roux. Telkom failed to proceed with this matter and the case is closed.	-	211,669
GA and N Schoombie: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for water damages after a municipal pump burst into their house. Possible liability of R43 196.	43,196	43,196
Rudnat Projects CC: This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment from the water services infrastructure grant. Possible liability of R4 856 544.	4,856,544	4,856,544
Emendo Inc: Development Agreement: Bakenpark Extensions 5, 6 & 7: This case is handled by Niemann Grobbelaar Attorneys and is regarding the lodging of a High Court Application regarding the appointment of Emendo Inc to nullify the agreement of the land availability and development agreement for Bakenpark Extensions 5, 6 & 7.	-	-
Ke a Dira Construction: This case is handled by Niemann Grobbelaar Attorneys and is regarding the appointment of another service provider for the construction of 1,8 km block paved roads and storm water drains in Bohlokong, Bethlehem. Possible liability not yet established.	7,961,411	7,961,411
MVD Xariep Raadgewende Ingeneurs CC: This case is handled by Niemann Grobbelaar Inc and is regarding an outstanding payment for professional services rendered to the municipality. Possible liability of R106 018.	106,018	106,018

Dihlabeng Local Municipality

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44. Contingencies (continued)		
Telkom SA Soc Ltd and Mapitsi Civil Works CC:	-	25,486
This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R25 486. Telkom claim that telecommunication cables and/or telecommunication infrastructure was damaged at or near Stand 400, Fateng tse Ntsho, Paul Roux. Telkom failed to proceed with this matter and the case is closed.		
TJ Ramakatan:	900,000	900,000
This case is regarding the outstanding amount for buying another portion of the farm. The case is handled by Niemann Grobbelaar Payment proposal of R900 000 was made and accepted by estate.		
Hexing Electrical SA (Pty) Ltd:	99,508,065	99,508,065
This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim against the municipality for cancellation of a contract to install electrical meters around Dihlabeng.		
Sonja KC	390,000	390,000
This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for back-pay from 3 July 2008 till 5 March 2015.		
HT Pelatona Projects (Pty) Ltd:	612,000	612,000
This case is handled Niemann Grobbelaar and is regarding outstanding payments for services rendered regarding the upgrading of the Clarens Waterworks.		
Waco Africa (Pty) Ltd t/a Sanitech:	1,542,000	1,542,000
This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for outstanding payments for the hire of portable toilets.		
	120,060,748	152,523,045

45. Related parties

Relationships

Councillors

Members of key management

All municipal councillors

All Section 57 managers

The municipality also provides municipal services to the Councillors and Section 57 managers. These services are provided at normal terms and conditions. This does not represent a significant part of the income of the municipality.

Related party balances

Amounts included in Trade receivable regarding related parties

Councillors in arrears (refer to Note 53)	483,804	315,647
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Related party transactions

Remuneration paid to related parties

Section 57 Managers (refer to Note 29)	8,235,435	8,195,821
Councillors (refer to Note 30)	17,530,732	16,858,102

46. Prior period errors

Property rates to National government property were levied at the incorrect rates. These rates and interest charged on overdue payments were corrected. This also effected the allocation of the bad debts and related VAT on provision for bad debts.

Investment property were corrected to agree to the asset register.

The Workmans Compensation creditor were adjusted to agree to their statement.

Certain properties were moved from Investment property to Inventory - Land held for resale as Council has taken a decision to sell these stand on 22/02/2018.

The correction of the error(s) results in adjustments as follows:

Dihlabeng Local Municipality

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46. Prior period errors (continued)		
Statement of financial position	2019	2018
VAT receivable	2,339,071	1,232,989
Consumer debtors from exchange transactions	(26,387,329)	(13,978,343)
Consumer debtors from non-exchange transactions	(10,727,797)	(3,365,501)
Investment property	(86,546,295)	(86,546,295)
Payable from exchange transactions	(15,144,333)	(13,305,160)
Opening Accumulated Surplus or Deficit	11,756,815	11,756,815
Inventory	104,205,495	104,205,495
Statement of financial performance		
Employee related expenses (Contracted services)	1,327,102	-
Property rates	16,318,450	-
Debt impairment	(1,106,079)	-
Interest received (trading)	3,452,834	-
Finance cost	512,071	-

47. Comparative figures

Certain comparative figures have been reclassified due to suspense accounts not accounted for correctly.

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassifi- cation	After reclassification
Receivables from non-exchange transactions	3,263,211	287,117	3,550,328
Cash and cash equivalents	2,889,113	16,327	2,905,440
Payables for exchange transactions	(481,897,288)	(303,444)	(482,200,732)
Total	(475,744,964)	-	(475,744,964)

48. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Dihlabeng Local Municipality

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48. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	4,726,956	5,217,674	19,135,056	-
Payables from exchange transactions	647,384,193	-	-	-
Finance lease liability	350,577	377,317	369,429	-

At 30 June 2019

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	4,645,316	4,726,956	17,331,573	7,021,158
Payables from exchange transactions	481,170,532	-	-	-
Finance lease liability	307,503	341,313	760,900	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due dates are cut immediately.

Market risk

Interest rate risk

The municipality's interest rate risk arises from consumer debtors. Consumer debtors are levied at variable rates expose the municipality to cash flow interest rate risk. The interest rate is linked to the prime interest rate and the risk is not considered to be material at this stage. Long term borrowings was done at a fixed rate and interest rate risk will not impact the financial position of the municipality.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The municipality's investments in equity of other entities that are publicly traded on the JSE, but does not have a material effect on the municipality's income.

Dihlabeng Local Municipality

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49. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of (R115,704,360) (2019 : (R229,599,841)) and that the municipality's total liabilities exceed its assets by R1,857,978,494 (2019 : R1,973,682,853). In addition, the municipality owed Eskom R404,919,251 (2019: R263,047,090), Bethlehem Hydro (Pty) Ltd R- (2019: R27,502,989) and Free State Fleet Management Trading Entity R62,681,782 (2019: R63,482,218) and the Department of Water Affairs R28,956,389 (2019: R8,464,543) at 30 June 2020 which is long overdue. The municipality is not able to timeously recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30 day time period.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

50. Events after the reporting date

There are no events after the reporting date.

51. Unauthorised expenditure

Opening balance as previously reported	241,087,377	321,296,714
Opening balance as restated	241,087,377	321,296,714
Add: Expenditure identified - current	161,733,392	241,087,377
Less: Approved/condoned/authorised by council	-	(321,296,714)
Closing balance	402,820,769	241,087,377

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	1,562,680	192,965,297
Cash	160,170,712	48,122,080
	161,733,392	241,087,377

Analysed as follows: non-cash

Depreciation and amortisation	-	192,200,297
Debt impairment	1,562,680	-
Actuarial losses	-	765,000
	1,562,680	192,965,297

Analysed as follows: cash

Bulk purchases	23,543,391	-
Finance costs	30,698,649	8,081,385
Contracted services	21,567,605	-
General expenditure	41,494,918	-
Employee related costs	38,308,226	30,196,161
Repairs & maintenance	3,856,191	8,716,432
Remuneration of councillors	701,732	1,128,102
	160,170,712	48,122,080

Disciplinary steps taken/criminal proceedings

No disciplinary steps were taken during the year under review.

Recoverability of unauthorised expenditure

No amounts will be recovered.

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52. Fruitless and wasteful expenditure		
Opening balance as previously reported	81,341,196	68,729,530
Opening balance as restated	81,341,196	68,729,530
Add: Expenditure identified - current	36,582,204	12,611,666
Closing balance	117,923,400	81,341,196
Expenditure identified in the current year include those listed below:		
Interest paid	36,582,204	12,611,666
53. Irregular expenditure		
Opening balance as previously reported	107,330,788	90,255,329
Opening balance as restated	107,330,788	90,255,329
Add: Irregular Expenditure - current	37,568,951	53,694,085
Less: Amount written off - current	-	(36,618,626)
Closing balance	144,899,739	107,330,788
Incidents/cases identified in the current year include those listed below:		
Competitive bidding not invited	-	10,345,026
SCM Regulation 32 were made that did not adhere to the requirements	-	8,990,062
Three written quotations not invited	-	332,500
Tax clearances not obtained	-	34,385
Appointments of employees without proper process followed	7,105,677	-
Actual expenditure exceeded the contract amount	-	21,135,575
Declaration of interest not obtained	-	316,719
Composition of bid committee	26,599,594	12,253,195
Supplier in service of the state	-	69,668
Deviation from supply chain not reported at next council meeting	-	216,955
Cost containment measures not adhered to	3,863,680	-
	37,568,951	53,694,085

Dihlabeng Local Municipality

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54. In-kind donations and assistance

Details of donations

Total Rand
value

160 pairs of school shoes to various schools in Bohlokong	50,830
7 Wheelchairs to disabled persons living alone	59,200
200 Blankets and 100 Food Parcels for the Action Against Poverty	188,960
2,000 Sanitary packs for the disadvantaged school learners at Khayeng Intermediate School	171,000
Soup ingredients for Mandela day for the Action Against Women Poverty	6,955
100 Blankets and 50 Food Parcels were donated to the elderly and disabled women to commemorate Womens day	105,642
3 Laptops and 3 printers were donated to Taung High School, Breda High School and Ipokelleng High School	28,800
20 Wheelchairs donated to disabled people living alone or a home with a disabled person that needs assistance	97,840
Agricultural Seeds were donated to schools and various organized community groups in different wards for the establishment of food gardens	86,032
400 unisex toys were distributed to Orphans, children from less fortunate homes and children living with disability for Christmas	110,000
50 Cosmetics packs and 50 Hats for people living with albinism	19,250
82 Small toys for kids for New Year's celebrations	1,952
Cleaning Campaign as part of the Mayoral campaign for Mandela Day (paint & painting equipment)	54,180
Cash donation to Isiqalosethu Primary Cooperative for detergents	98,324
Cash donation for Sponsorship of Mayoral golf day	150,000
	1,228,965

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance		
Current year subscription / fee	2,751,476	3,219,277
Previous year subscription fee adjustment	2,916,077	2,637,707
Amount paid - previous years	-	291,800
	(2,664,629)	(3,397,308)
	3,002,924	2,751,476

Audit fees

Opening balance	3,302,310	1,308,880
Current year invoices and interest	7,585,786	7,040,091
Amount paid - current year	(5,188,944)	(3,737,781)
Amount paid - previous years	(3,301,330)	(1,308,880)
	2,397,822	3,302,310

PAYE and UIF

Opening balance	3,083,361	2,566,954
Current year subscription / fee	38,562,095	35,813,245
Amount paid - current year	(35,365,966)	(32,729,884)
Amount paid - previous years	(3,083,361)	(2,566,954)
	3,196,129	3,083,361

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55. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Opening balance	13,068,842	8,695,795
Current year subscription / fee	82,133,310	74,647,698
Amount paid - current year	(62,290,673)	(61,578,856)
Amount paid - previous years	(13,068,842)	(8,695,795)
	19,842,637	13,068,842
VAT		
VAT receivable	24,771,815	14,206,499

VAT output payables and VAT input receivables are shown in note 6.

Not all VAT returns have been submitted by the due date throughout the year.

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55. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	4,386	177,469	181,855
KJ Rathebe	8,314	101,188	109,502
TMH Mofokeng	9,942	165,308	175,250
TI Mofokeng	1,388	3,755	5,143
MJ Radebe	1,090	381	1,471
LD Xaba	2,506	8,077	10,583
	27,626	456,178	483,804

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	6,220	131,749	137,969
KJ Rathebe	2,897	60,848	63,745
TMH Mofokeng	4,372	100,623	104,995
J Nhlapo	2,565	6,373	8,938
	16,054	299,593	315,647

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
PD Lengoabala	181,855	270
KJ Rathebe	115,688	270
TMH Mofokeng	175,250	270
TI Mofokeng	5,143	270
MJ Radebe	1,471	120
LD Xaba	10,583	270
	489,990	1,470

30 June 2019	Highest outstanding amount	Aging (in days)
PD Lengoabala	137,969	270
KJ Rathebe	63,745	270
TMH Mofokeng	104,995	270
J Nhlapo	8,938	270
	315,647	1,080

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56. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Emergency	2,655,955	216,955
Impractical	2,307,319	-
	4,963,274	216,955

57. Budget differences

Material differences between budget and actual amounts

Refer to paragraph 2.4 of the Accounting officers report for the details on the material variances.

Schedule of external loans as at 30 June 2020

Loan Number	Redeemable	Balance at 30 June 2019	Received during the period	Redeemed written off during the period	Balance at 30 June 2020	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
DBSA	61007269	30/06/2025	33,725,003	-	4,645,316	29,079,687	-
			33,725,003	-	4,645,316	29,079,687	-
Lease liability							
ABSA Bank	90717320	01/04/2023	699,789	-	159,208	540,581	-
ABSA Bank	91038728	01/06/2023	709,927	-	153,185	556,742	-
			1,409,716	-	312,393	1,097,323	-
Total external loans							
Development Bank of South Africa			33,725,003	-	4,645,316	29,079,687	-
Lease liability			1,409,716	-	312,393	1,097,323	-
			35,134,719	-	4,957,709	30,177,010	-